# ELBIT SYSTEMS LTD.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**AS OF SEPTEMBER 30, 2002**

(Unaudited)

# ELBIT SYSTEMS LTD.

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# ELBIT SYSTEMS LTD.

## CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

| | September 30 2002 (Unaudited) | December 31 2001 (Audited) |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | 48,163 | 44,064 |
| Deposits with banks and others | 3,624 | 2,940 |
| Trade receivables, net of allowance for doubtful accounts of $3,118 and $3,200 as of September 30, 2002 and December 31, 2001, respectively | 232,320 | 241,827 |
| Other receivables and prepaid expenses | 38,589 | 34,779 |
| Inventories, net of advances (Note 3) | 219,587 | 185,090 |
| Total current assets | 542,283 | 508,700 |
| INVESTMENTS AND LONG-TERM RECEIVBALES | | |
| Affiliated companies and other investments | 37,923 | 31,492 |
| Accounts receivable | 31,046 | 64,804 |
| Deposits and loans | 2,910 | 3,433 |
| Severance pay fund | 5,613 | 5,984 |
| Total long-term assets | 77,492 | 105,713 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 194,828 | 184,774 |
| OTHER ASSETS, net of accumulated amortization of $20,136 and $14,416 at September 30, 2002 and December 31, 2001, respectively | 106,488 | 105,283 |
| Total assets | 921,091 | 904,470 |

**The accompanying notes are an integral part of the consolidated financial statements**

# ELBIT SYSTEMS LTD.

## CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

| | September 30 2002 (Unaudited) | December 31 2001 (Audited) |
|---|---|---|
| CURRENT LIABILITIES | | |
| Loans and short-term credit | 32,998 | 46,894 |
| Accounts payable - trade | 85,874 | 111,182 |
| Sundry accruals | 128,688 | 133,355 |
| Advances from customers, net of inventories | 100,308 | 93,342 |
| Total current liabilities | 347,868 | 384,773 |
| LONG TERM LIABILITIES | | |
| Long-term loans | 77,840 | 69,202 |
| Advances from customers, net | 46,800 | 29,840 |
| Deferred taxes | 24,156 | 21,989 |
| Employee termination obligations | 16,238 | 14,687 |
| Total long-term liabilities | 165,034 | 135,718 |
| MINORITY INTEREST | 6,382 | 5,994 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 11,099 | 11,054 |
| Additional paid-in capital | 245,665 | 244,625 |
| Retained earnings | 149,364 | 126,627 |
| | 406,128 | 382,306 |
| Less - treasury stock | 4,321 | 4,321 |
| Total shareholders' equity | 401,807 | 377,985 |
| Total liabilities and shareholders' equity | 921,091 | 904,470 |

**The accompanying notes are an integral part of the consolidated financial statements**

# ELBIT SYSTEMS LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except for per share amounts)

| | For the nine months ended September 30 | | For the three months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| Revenues | 589,143 | 539,731 | 210,155 | 187,957 | 764,501 |
| Cost of revenues | 424,415 | 389,153 | 150,738 | 136,090 | 553,957 |
| Expense in respect of Chief Scientist (Note 5) | 9,801 | - | - | - | - |
| Gross profit | 154,927 | 150,578 | 59,417 | 51,867 | 210,544 |
| Research and development expenses, net | 40,949 | 41,032 | 15,185 | 15,302 | 60,103 |
| Marketing and selling expenses | 47,353 | 38,126 | 17,366 | 13,338 | 54,923 |
| General and administrative expenses | 31,046 | 28,810 | 10,860 | 10,836 | 43,524 |
| | 119,348 | 107,968 | 43,411 | 39,476 | 158,550 |
| Operating income | 35,579 | 42,610 | 16,006 | 12,391 | 51,994 |
| Finance expenses, net | (690) | (688) | (595) | (134) | (2,618) |
| Other income (expenses), net | (524) | (475) | (115) | (312) | 774 |
| Income before income taxes | 34,365 | 41,447 | 15,296 | 11,945 | 50,150 |
| Income taxes (Note 6) | 6,810 | 8,875 | 1,565 | 2,099 | 11,003 |
| | 27,555 | 32,572 | 13,731 | 9,846 | 39,147 |
| Equity in net gains (losses) of affiliated companies and partnership | 2,554 | (429) | 1,114 | 593 | (598) |
| Minority interest | 1,877 | 984 | 659 | 898 | 2,247 |
| Net income | 31,986 | 33,127 | 15,504 | 11,337 | 40,796 |
| Earnings per share | | | | | |
| Basic earnings per share | 0.83 | 0.87 | 0.40 | 0.30 | 1.07 |
| Number of shares used in computation (in thousands) | 38,459 | 37,892 | 38,515 | 38,004 | 37,975 |
| Diluted earnings per share | 0.80 | 0.85 | 0.39 | 0.29 | 1.04 |
| Number of shares used in computation (in thousands) | 39,896 | 39,087 | 39,772 | 39,579 | 39,359 |

**The accompanying notes are an integral part of the consolidated financial statements**

# ELBIT SYSTEMS LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars, except number of shares)

| | Number of Shares | Share Capital | Additional paid-in capital | Retained Earnings | Gross Total | Treasury Stock | Net Total |
|---|---|---|---|---|---|---|---|
| **Unaudited** | | | | | | | |
| **Balance as of January 1, 2002** | 38,739,093 | 11,054 | 244,625 | 126,627 | 382,306 | (4,321) | 377,985 |
| Net income | - | - | - | 31,986 | 31,986 | - | |
| Warrants exercised | 205,093 | 45 | 1,866 | - | 1,911 | - | |
| Tax benefit in respect of options exercised | - | - | 390 | - | 390 | - | |
| Amortization of deferred stock compensation | - | - | (1,216) | - | (1,216) | - | |
| Dividend | - | - | - | (9,249) | (9,249) | - | |
| **Balance as of September 30, 2002** | 38,944,186 | 11,099 | 245,665 | 149,364 | 406,128 | (4,321) | 401,807 |
| **Balance as of January 1, 2001** | 38,153,233 | 10,916 | 235,462 | 97,963 | 344,341 | (3,613) | 340,728 |
| Net income | - | - | - | 33,127 | 33,127 | - | |
| Warrants exercised | 309,061 | 74 | 1,101 | - | 1,175 | - | |
| Tax benefit in respect of options exercised | - | - | 931 | - | 931 | - | |
| Adjustment of capital reserve | - | - | (3,874) | - | (3,874) | - | |
| Amortization of deferred stock compensation | - | - | 2,472 | - | 2,472 | - | |
| Treasury stock | - | - | - | - | - | (708) | |
| Dividend | - | - | - | (9,088) | (9,088) | - | |
| **Balance as of September 30, 2001** | 38,462,294 | 10,990 | 236,092 | 122,002 | 369,084 | (4,321) | 364,763 |

**The accompanying notes are an integral part of the consolidated financial statements**

# ELBIT SYSTEMS LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Cont.)

(In thousands of U.S. dollars, except number of shares)

| | Number of Shares | Share Capital | Additional paid-in capital | Retained Earnings | Gross Total | Treasury Stock | Net Total |
|---|---|---|---|---|---|---|---|
| **Unaudited** | | | | | | | |
| **Balance as of July 1, 2002** | 38,905,182 | 11,090 | 245,902 | 136,940 | 393,932 | (4,321) | 389,611 |
| Net income | - | - | - | 15,504 | 15,504 | - | |
| Warrants exercised | 39,004 | 9 | 312 | - | 321 | - | |
| Tax benefit in respect of options exercised | - | - | 54 | - | 54 | - | |
| Amortization of deferred stock compensation | - | - | (603) | - | (603) | - | |
| Dividend | - | - | - | (3,080) | (3,080) | - | |
| **Balance as of September 30, 2002** | 38,944,186 | 11,099 | 245,665 | 149,364 | 406,128 | (4,321) | 401,807 |
| **Balance as of July 1, 2001** | 38,307,701 | 10,953 | 237,255 | 113,697 | 361,905 | (4,321) | 357,584 |
| Net income | - | - | - | 11,337 | 11,337 | - | |
| Warrants exercised | 154,593 | 37 | 515 | - | 552 | - | |
| Tax benefit in respect of options exercised | - | - | 514 | - | 514 | - | |
| Adjustment of capital reserve | - | - | (3,874) | - | (3,874) | - | |
| Amortization of deferred stock compensation | - | - | 1,682 | - | 1,682 | - | |
| Dividend | - | - | - | (3,032) | (3,032) | - | |
| **Balance as of September 30, 2001** | 38,462,294 | 10,990 | 236,092 | 122,002 | 369,084 | (4,321) | 364,763 |
| **Audited** | | | | | | | |
| **Balance as of January 1 , 2001** | 38,153,233 | 10,916 | 235,462 | 97,963 | 344,341 | (3,613) | 340,728 |
| Net income | - | - | - | 40,796 | 40,796 | - | |
| Warrants exercised | 585,860 | 138 | 3,162 | - | 3,300 | - | |
| Tax benefit in respect of options exercised | - | - | 1,363 | - | 1,363 | - | |
| Adjustment of capital reserve | - | - | (3,874) | - | (3,874) | - | |
| Amortization of deferred stock compensation | - | - | 8,512 | - | 8,512 | - | |
| Treasury stock | - | - | - | - | - | (708) | |
| Dividend | - | - | - | (12,132) | (12,132) | - | |
| **Balance as of December 31, 2001** | 38,739,093 | 11,054 | 244,625 | 126,627 | 382,306 | (4,321) | 377,985 |

**The accompanying notes are an integral part of the consolidated financial statements**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

| | For the nine months ended September 30 | | For the year ended December 31 |
|---|---|---|---|
| | 2002 (Unaudited) | 2001 (Unaudited) | 2001 (Audited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | 31,986 | 33,127 | 40,796 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and non-cash compensation | 24,382 | 28,174 | 41,377 |
| Deferred taxes | 382 | (4,250) | (2,694) |
| Deposits for severance pay | 371 | 161 | 167 |
| Provision for severance pay | 1,551 | 101 | (800) |
| Loss (gain) on sale of fixed assets and investments | 372 | 87 | (327) |
| Equity in net losses (gains) of affiliates and partnership | (2,554) | 429 | 103 |
| Minority interests and other adjustments | (1,855) | (497) | (960) |
| Changes in operating assets and liabilities: | | | |
| Receivables and prepaid expenses | 41,428 | (232) | (10,007) |
| Inventories | (54,826) | (59,495) | (72,165) |
| Accounts payable and accrued expenses | (30,081) | (5,310) | 38,013 |
| Chief Scientist | 9,935 | - | - |
| Advances received from customers | 41,755 | (4,847) | 6,489 |
| | 30,860 | (45,679) | (804) |
| Net cash provided by (used in) operating activities | 62,846 | (12,552) | 39,992 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of fixed and other assets | (30,416) | (33,439) | (45,296) |
| Investment grants received | - | 392 | 1,334 |
| Purchase of subsidiaries and business (Schedule A) | (5,280) | - | (3,344) |
| Investments in affiliated company and subsidiary | (2,684) | (2,700) | (801) |
| Proceeds from sale of fixed assets and investments | 805 | 1,560 | 3,010 |
| Long-term loans granted to employees | (555) | (1.868) | (1,872) |
| Long-term loans repaid by employees | 818 | 2,279 | 2,376 |
| Short-term loans, net | (612) | (100) | (111) |
| Net cash used in investing activities | (37,924) | (33,876) | (44,704) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from exercise of options | 1,911 | 1,175 | 3,300 |
| Repayment of long-term credit for purchase of a building | - | (3,000) | (3,000) |
| Company's shares acquired by a subsidiary | - | (708) | (708) |
| Proceeds from issuance of shares in a subsidiary | - | 2,782 | 3,722 |
| Receipt on account of shares in a subsidiary | 1,000 | - | - |
| Long-term loans repaid | (1,634) | (9,909) | (13,049) |
| Long-term loans received | 2,241 | 424 | 25,444 |
| Dividends paid | (9,249) | (9,088) | (12,132) |
| Changes in short-term credit, net | (15,092) | 50,340 | (6,517) |
| Net cash provided by (used in) financing activities | (20,823) | 32,016 | (2,940) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 4,099 | (14,412) | (7,652) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 44,064 | 51,716 | 51,716 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 48,163 | 37,304 | 44,064 |

**The accompanying notes are an integral part of the consolidated financial statements**

# ELBIT SYSTEMS LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

(In thousands of U.S. dollars)

| | For the nine months ended September 30 | | For the year ended December 31 |
|---|---|---|---|
| | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Audited) |
| Income taxes paid | 17,878 | 7,245 | 9,469 |
| Interest paid | 2,778 | 6,130 | 6,649 |

**SCHEDULE A:**

| | | | |
|---|---|---|---|
| Purchase of subsidiaries and business | | | |
| Assets and liabilities on date of acquisition: | | | |
| Working capital (except cash) | - | - | 888 |
| Fixed assets | (275) | - | (1,886) |
| Other assets | (5,078) | - | (3,800) |
| Long-term liabilities | - | - | 1,454 |
| Purchase of assets in credit | 73 | - | - |
| | (5,280) | - | (3,344) |

**The accompanying notes are an integral part of the consolidated financial statements**

## Note 1 - GENERAL

The accompanying financial statements have been prepared in a condensed format as of September 30, 2002, and for the nine months and three months then ended in accordance with generally accepted accounting principles in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. See Note 7 for the reconciliation from US GAAP to accounting principles generally accepted in Israel (Israeli GAAP).

These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2001.

The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature.

Operating results for the nine months ended September 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

## Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are identical to those applied in preparation of the latest annual financial statements, except as described in Note 4.

The accompanying financial statements have been prepared in U.S. dollars since the functional currency of the primary economic environment in which the operations of the Group (which includes the Company and its subsidiaries) are conducted is the U.S. dollar.

## Note 3 - INVENTORIES, NET OF ADVANCES

| | September 30 2002 | December 31 2001 |
|---|---|---|
| | Unaudited | Audited |
| Work-in-progress | 193,082 | 155,712 |
| Materials | 76,396 | 70,133 |
| Advances and payments on account | 39,677 | 30,955 |
| | 309,155 | 256,800 |
| Less- | | |
| Inventories deducted from advances | 8,896 | 10,961 |
| | 300,259 | 245,839 |
| Less - | | |
| Advances received from customers | 72,363 | 49,969 |
| Provision for losses | 8,309 | 10,780 |
| | 219,587 | 185,090 |

## Note 4 - GOODWILL AND OTHER INTANGIBLE ASSETS

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142) and accordingly goodwill is no longer being amortized as of January 1, 2002. In accordance with SFAS 142, the Company has also evaluated the useful lives of its other intangible assets and has concluded that no change in the period of amortization is necessary.

The annual amortization expense relating to intangibles existing as of September 30, 2002 for each of the five years in the period ending December 31, 2006 is estimated to be approximately $7,000.

As of January 1, 2002, the Company has unamortized goodwill in the amount of $36,000.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Company, based on an independent valuation of the fair value of each reporting unit, has determined that the carrying amount of each reporting unit does not exceed its fair value as of January 1, 2002. Accordingly, the Company concluded that as of January 1, 2002 no goodwill impairment loss should be recorded.

## Note 4 - GOODWILL AND OTHER INTANGIBLE ASSETS (CONT.)

The following transitional information is presented to reflect net income and earnings per share for all prior periods adjusted to exclude amortization of goodwill.

| | For the nine months ended September 30 | | For the three months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 | 2001 |
| Reported net income | 31,986 | 33,127 | 15,504 | 11,337 | 40,796 |
| Goodwill amortization | - | 2,070 | - | 690 | 2,760 |
| Adjusted net income | 31,986 | 35,197 | 15,504 | 12,027 | 43,556 |
| Earnings per share | | | | | |
| Reported basic earnings per share | 0.83 | 0.87 | 0.40 | 0.30 | 1.07 |
| Goodwill amortization | - | 0.06 | - | 0.02 | 0.08 |
| Adjusted basic earnings per share | 0.83 | 0.93 | 0.40 | 0.32 | 1.15 |
| Reported diluted earnings per share | 0.80 | 0.85 | 0.39 | 0.29 | 1.04 |
| Goodwill amortization | - | 0.05 | - | 0.01 | 0.07 |
| Adjusted diluted earnings per share | 0.80 | 0.90 | 0.39 | 0.30 | 1.11 |

## Note 5 - ARRANGEMENT WITH THE CHIEF SCIENTIST

In May 2002 El-Op's Board of Directors approved an arrangement, proposed by the Chief Scientist in Israel, according to which El-Op will pay commencing in 2002 an agreed amount of $10,632 in exchange for a release from all obligations to pay royalties in the future. This amount has been recorded as of September 30, 2002. As a result the Company recorded an expense for the agreed amount net of the accrual for royalties, previously recorded by El-OP.

## Note 6 - INCOME TAXES

The provision for taxes made in the third quarter of 2002 includes a reduction of tax expenses in the amount of $2,800 due to adjustments of estimated taxes and completion of tax assessments for prior years in respect of various group companies.

## Note 7 - RECONCILIATION TO ISRAELI GAAP

As described in Note 1, the Company prepares its financial statements in accordance with U.S. GAAP. The effects of the differences between US GAAP and Israeli GAAP on the Company's financial statements are detailed below.

**1. Effect on net income and earnings per share**

| | For the nine months ended September 30 | | For the year ended December 31 |
|---|---|---|---|
| | 2002 | 2001 | 2001 |
| | (Unaudited) | | (Audited) |
| A) Net income as reported according to U.S. GAAP | 31,986 | 33,127 | 40,796 |
| Adjustments to Israeli GAAP | (3,163) | 1,234 | 1,767 |
| Net income according to Israeli GAAP | 28,823 | 34,361 | 42,563 |
| B) Earnings per share | | | |
| Basic net income per share | | | |
| As reported according to U.S. GAAP | 0.83 | 0.87 | 1.07 |
| As per Israeli GAAP | 0.75 | 0.91 | 1.11 |
| Diluted net income per share | | | |
| As reported according to U.S. GAAP | 0.80 | 0.85 | 1.04 |
| As per Israeli GAAP | 0.72 | 0.88 | 1.11 |

**2. Effect on shareholders' equity**

| | As reported | Adjustments | As per Israeli GAAP |
|---|---|---|---|
| **As of September 30, 2002 (Unaudited)** | | | |
| Shareholders' equity | 401,807 | (12,636) | 389,171 |
| **As of December 31, 2001 (Audited)** | | | |
| Shareholders' equity | 377,985 | (12,149) | 365,836 |

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